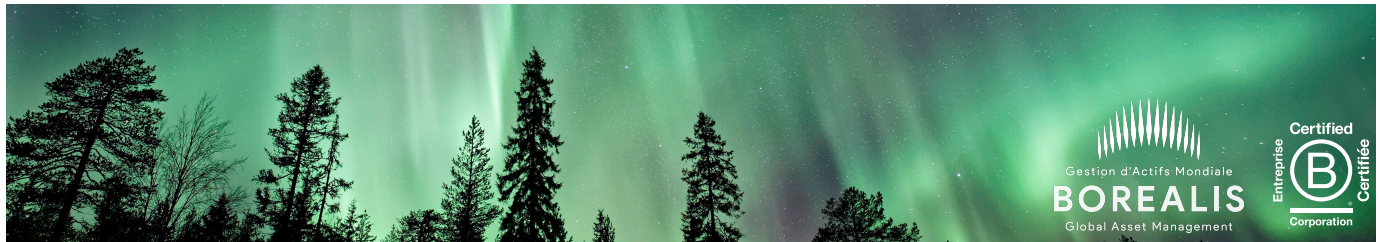


BOREALIS GLOBAL MIDCAP EQUITY STRATEGY



**Q4
2025**

THE ILLUSION OF THE AVERAGE: HOUSEHOLD, INFLATION AND CONVICTION

A Two-Speed Economy

The fourth quarter marked the end of the destocking cycle and a tangible return of order books across several industrial segments, driven primarily by the defense and automotive sectors. While employment remains resilient and continues to support consumption – the historical engine of the U.S. economy – this apparent strength of the "average consumer" masks growing disparities. Household sentiment remains anchored in negative territory, weighed down by persistent high prices and increased financial pressure at the end of each month.

We are observing a "K-shaped economy" where trajectories are radically diverging: while wealthy households and baby boomers maintain a solid footing, indebted households and younger generations face major challenges in accessing homeownership. The most vulnerable are beginning to dip into their savings to cover current expenses, while the middle class is adopting "trading down" strategies, favoring low-price retailers. Simultaneously, companies are maintaining their pricing power, sometimes using formatting strategies (larger volumes that are actually proportionally more expensive) to protect their margins. After a brief lull during the holiday season, the resurgence of inflation is now forcing central banks to pause their rate-cutting cycle.

Internationally, the landscape is contrasted. In Europe, signs of improvement are emerging in Italy, Spain, Poland, and Germany. Conversely, France continues to be mired in chronic political instability and an inability to reform, sanctioned by a downgrade of its sovereign rating. In Japan, the Prime Minister continues to strategically reposition the archipelago, prioritizing the dynamism of the internal economy through increased corporate support and regulatory easing

Market Performance

Despite phases of volatility throughout the year, markets concluded 2025 on a positive note, driven by strong fourth-quarter performance in Europe, Canada, and emerging markets. This final quarter was also dominated by a strong comeback of the "Value" style within large-cap stocks, a trend that also spread to the small and mid-cap segments.

The MSCI World and MSCI ACWI indices rose by 3.1% over the quarter, a progression fueled by Canada and Europe – led by Italy – while China recorded a notable decline. For the full year 2025, North America benefited from the momentum of the technology and precious metals sectors, while Europe was driven by banks and the defense industry. In contrast, the consumer sectors (both discretionary and staples) as well as IT services weighed on annual returns.

In U.S. dollars, the MSCI World surged by 21.1% in 2025, marking a third consecutive year of strong performance. The mid-cap segment (MSCI World Midcap) grew by 11.8%, with exceptional contributions from Europe (+32.9%) and Canada (+36.2%). The U.S. Midcap lagged behind (+3.4%), slowed particularly by the correction in the software industry.

Strategy and Positioning

As of December 31, 2025, the portfolio maintained a selective exposure: an overweight in European markets, a slight overweight in North America, and a structural underweight in Asia. This positioning was globally favorable to performance, with stock selection in healthcare and industrials being the main driver of added value this quarter.

The absence of exposure to telecommunications and energy, combined with an underweight in real estate, also contributed positively. Conversely, the materials sector was the main detractor.

We continued our strategy of crystallizing gains in technology to redeploy capital toward the financial sector and more defensive segments. We deliberately avoid health insurers, whose business models appear misaligned with patients' fundamental interests, as well as IT and consulting services, which we deem vulnerable to technological disruption from AI. Our industrial conviction is based on the themes of reshoring and national sovereignty, which will catalyze massive investments in infrastructure and R&D in the coming years. De-globalization entails a necessary duplication of production capacities and an economic "arms race," whose budgets will benefit many industrial and research segments.

Ensign Group, Assa Abloy, Interpump, EQT, and Ulta Beauty were the strongest contributors to portfolio performance. Conversely, FMC, Alexandria Real Estate, BJs Wholesale Club, Smurfit WestRock, and Melexis weighed on results.

At the end of the quarter, the portfolio held 46 positions. In Canadian dollars, the average market capitalization was \$28.2 billion, and the median capitalization reached \$21.0 billion. The top 15 positions represented 43.6% of the total portfolio value. This relative concentration remains the primary factor of portfolio volatility. Notably, the share of green revenue in the portfolio (Refinitiv classification) stood at 15.1%, nearly double its benchmark.

Outlook: Inflation and Geopolitics

The year 2026 opens under the sign of persistent underlying inflation, particularly for essential goods. A harsher-than-average winter is also pushing energy prices higher, further squeezing purchasing power despite the glimmer of hope provided by stabilizing rents. The fragility of household savings makes them particularly vulnerable to any cooling of the labor market.

The geopolitical landscape will remain volatile, dominated by the U.S. midterm elections and ongoing tensions in the Middle East. However, the possibility of an agreement in Eastern Europe could bring the theme of Ukraine's reconstruction back to the center of investment strategies, benefiting local and European industrial players. Spending on technological R&D is expected to continue, supported by the acceleration of global military budgets.

We continue to favor companies with strong balance sheets, differentiated products, a healthy corporate culture, and a balanced capital allocation policy – necessary conditions to navigate this phase of global economic transition.

SOCIAL IMPACT



SUSTAINABILITY PERFORMANCE

	Portfolio	MSCI ACWI
ESG Combined Score (Refinitiv)	64	51
ESG Controversies Score (Refinitiv)	82	40
Corruption Perception Index Score (Transparency Intl)	70	67
W.A. Carbon Intensity (tons CO2e/US\$ rev.)	47	130
Carbon Footprint (tons CO2e/US\$ invested)	23	47
Clean Energy Exposure (% of AUM)	23%	33%
Water technology >50% of sales (% of AUM)	18%	4%
Exposure to controversial sectors (5+coal)	0.0%	5.6%
Board gender diversity (%)	38	34
Community Involvement Score (Refinitiv)	75.0	76.4
Microfinance investing (% of AUM)	7%	5%
SBTi Carbone reduction Near Term Targets	45%	30%
Of which Targets Committed	9%	7%
Of which Targets Set and Validated	91%	93%
SBTi Net Zero targets set	24%	12%
SBTi Near Term Targets Removed	4%	9%

Note: While AI tools (Gemini) were used to assist in drafting this newsletter, all content has been reviewed, verified, and finalized by Valérie Cecchini.